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October 20, 2004

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# Acquisition

Overseas Purchase Card  
Transactions by DoD  
Dependents Schools-Europe  
(D-2005-006)

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Department of Defense  
Office of the Inspector General

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### **Acronyms**

AO	Approving Official
APC	Agency Program Coordinator
DoDEA	Department of Defense Education Activity
DoDDS	Department of Defense Dependents Schools
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
IG DoD	Inspector General of the Department of Defense
PMO	Program Management Office



INSPECTOR GENERAL  
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October 20, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION  
ACTIVITY

SUBJECT: Report on Overseas Purchase Card Transactions by DoD Dependents  
Schools-Europe (Report No. D-2005-006)

We are providing this report for review and comment. We considered management comments on a draft version of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The DoD Education Activity comments were partially responsive. We request additional comments on Recommendations 1.a., 1.b.(1), 1.e., 1.f., 2.b., and 3. As a result of management comments, we revised Recommendations 1.a. and 1.b.(1) and added Recommendation 1.f., which is addressed to DoD Education Activity. We also added Recommendation 3., which is addressed to the DoD Purchase Card Joint Program Management Office. Therefore, we request that the DoD Education Activity and the DoD Purchase Card Joint Program Management Office provide comments by December 20, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Audls@dodig.osd.mil](mailto:Audls@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Robert F. Prinzbach at (703) 604-8907 (DSN 664-8907) or Mr. Albert L. Putnam at (703) 604-8779 (DSN 664-8779). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Shelton R. Young  
Assistant Inspector General  
for Readiness and Logistics Support

# Office of the Inspector General of the Department of Defense

Report No. D-2005-006

October 20, 2004

Project No. D2003LH-0052

## Overseas Purchase Card Transactions by DoD Dependents Schools-Europe

### Executive Summary

**Who Should Read This Report and Why?** Policy makers, senior managers, purchase card program managers, and purchase card users should read this report to help identify potential problem areas in purchase card programs. This report identifies problems within the DoD Dependents Schools-Europe (DoDDS-Europe) purchase card program. After reading this report, managers should review their own purchase card programs and implement the appropriate recommendations to strengthen their programs.

**Background.** This audit was performed to meet the requirements of Public Law 107-314, "National Defense Authorization Act for Fiscal Year 2003," December 2, 2002, which requires the Inspector General of the Department of Defense to perform periodic purchase card audits. The purchase card is a Government-wide commercial credit card that was established to streamline acquisitions by providing a low-cost, efficient alternative for purchasing directly from merchants. The DoD Purchase Card Joint Program Management Office is the executive agent for DoD purchase cards. During the 6-month period ending March 31, 2003, DoD cardholders located outside of the United States made about 525,000 transactions, valued at \$350 million. For transaction made by DoDDS-Europe, we used data mining techniques to identify high-risk transactions that appeared to be prohibited by guidance or that met a fraud profile or both. DoDDS-Europe is a component of DoD Education Activity (DoDEA) that operates overseas schools from Bahrain to Iceland. DoDDS-Europe made about 12,000 purchase card transactions, valued at \$8.4 million, during the 6-month period ending March 31, 2003. We visited selected activities in Germany and Great Britain for audit verification.

**Results.** DoDDS-Europe did not implement effective internal controls over the purchase card program before, during, or after purchase for the 22 accounts and 411 transactions, valued at about \$2.1 million, that we reviewed. The discrepancies included:

- 21 of 22 accounts that did not have proper authorization or reasonable purchase limits;
- 261 of 411 transactions, valued at \$988,993, that were not supported by available documentation, permitted by guidance, or competitively acquired; and
- 411 transactions, valued at about \$2.1 million, that were not reconciled or approved prior to payment or properly accounted for upon receipt.

To improve controls, DoDEA should devote adequate human capital and travel resources to program oversight and issue overarching program guidance that is consistent and

complete and is distributed to program officials. In addition, DoDDS-Europe management needs to provide the discipline, structure, and climate necessary to implement effective internal controls.

As a result of control weaknesses, DoDDS-Europe made \$2.09 million in questionable purchases<sup>1</sup> including \$113,326<sup>2</sup> for merchandise that could not be located on property records, \$259,605 for official travel of DoDDS-Europe employees, and \$76,220 of purchases made without the required competition. In addition, DoDDS-Europe made up to \$22,574 in improper entertainment and refreshment purchases.<sup>3</sup> Further, DoDDS-Europe has no assurance that questionable or improper purchases will be prevented or promptly identified, that purchased goods and services will be received and protected from theft and unauthorized use, that reasonable prices will be paid for goods and services, or that spending will be limited to available funding. See the Finding section of the report for detailed recommendations.

**Management Comments.** The Director, DoDEA concurred with the draft recommendation to devote adequate human capital and travel resources to program oversight. He nonconcurred with the draft recommendation to issue overarching program guidance or to revoke the entertainment guidance. The Director stated that existing entertainment guidance was reasonable and had been coordinated with the Office of the DoD Deputy General Counsel (Fiscal). He also stated that separate entertainment guidance was necessary. However, the Director stated that DoDEA will issue purchase card guidance to address competitive purchases and property records and will issue a training guide to address food and water purchases. In addition, the DoDDS-Europe will prepare a semiannual report addressing compliance with the DoD Purchase Card Program and has taken administrative action against personnel involved with the entertainment purchases. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

**Audit Response.** We revised the recommendations on overarching and entertainment guidance to recommend that the overarching guidance summarize rather than replace the entertainment guidance. However, the entertainment guidance should be revised to address additional types of entertainment and should be formally reviewed and approved by the DoD Deputy General Counsel (Fiscal). The Director agreed to issue purchase card guidance and training materials, but agreed to address only some issues in the training materials. The problems with consistency, completeness, and distribution of guidance could be minimized or prevented by addressing all issues in the overarching guidance, which would provide cardholders with the information necessary to ensure the appropriate use of the Government purchase card. We have added recommendations that the DoDEA and the DoD Purchase Card Joint Program Management Office review the DoDDS-Europe semiannual report for compliance. We request that DoDEA and the DoD Purchase Card Joint Program Management Office provide comments on the revised and added recommendations by December 20, 2004.

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<sup>1</sup>Questionable transactions have insufficient documentation to determine whether they are valid.

<sup>2</sup>Two months after our field visit, a DoDDS-Europe official stated that although most of the records of accountable property had been corrected, they were still unable to properly account for property valued at \$13,755.

<sup>3</sup>Improper transactions are purchases intended for Government use but are not permitted by law, regulation, DoD policy, or DoD Component policy.

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Section 1007 of Public Law 107-314, “National Defense Authorization Act for Fiscal Year 2003,” December 2, 2002, requires that the Inspector General Department of the Defense and audit organizations within the Military Services perform periodic audits to identify:

- “(A) potentially fraudulent, improper, and abusive uses of purchase cards;
- (B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and
- (C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.”

## Background

**DoD Education Activity.** The DoD Education Activity (DoDEA) is an agency of the DoD. It is headed by a director who oversees all agency functions from DoDEA headquarters in Arlington, Virginia. DoDEA schools are divided into subcomponents. DoD Dependents Schools (DoDDS) operates overseas schools through DoDDS-Europe and DoDDS-Pacific. DoD Domestic Dependent Elementary and Secondary Schools operates schools in the United States. DoDEA schools serve the children of Service members, U.S. Government employees, and contract employees throughout the world. DoDEA operates 222 fully accredited public schools.

**DoDDS-Europe.** As of October 2004, DoDDS-Europe operated 112 schools from Bahrain to Iceland and one school dormitory. We reviewed 411 purchase card transactions from DoDEA-Europe, including 195 transactions made by cardholders in Germany and 216 transactions made by cardholders in Great Britain. In Germany, we reviewed transactions at three offices and three schools. In Great Britain, we reviewed transactions at three offices, one school, and one dormitory. The London Central High School and the London Central High School Dormitory, for students in grades 9 through 12, are on Daws Hill Royal Air Force Base, United Kingdom. Both dormitory and non-boarding school students attend London Central High School. Dormitory students can be children of Service members, DoD civilian employees, other U.S. Government employees, and U.S. Government contractors in foreign countries. Dormitory students receive room, board, and regularly scheduled trips and extracurricular activities. Children of Service members and DoD civilian employees pay no tuition and receive round-trip transportation from school to home three times per year. Students who are not children of Service members or DoD civilian employees pay tuition.

**Government Purchase Card Program.** The purchase card is a Government-wide commercial credit card used to purchase goods and services. Government purchase cards were established to streamline acquisitions by providing a low-cost, efficient alternative for obtaining goods and services directly from merchants. The General Services Administration awarded the first



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Government-wide purchase card contract in 1989, which is when DoD entered the program. On October 13, 1994, the President issued Executive Order 12931, which mandated expanded use of purchase cards and the use of purchase cards by the offices that use the supplies or services purchased.

**DoD Purchase Card Program.** Section 2784, title 10, United States Code, “Management of Credit Cards,” (10 U.S.C. 2784) requires the Secretary of Defense to prescribe regulations governing the use and control of credit cards that are issued for official use. Regulations must include safeguards and internal controls to ensure that a record of each cardholder’s purchase limit exists, that charges on each monthly statement are reconciled with supporting documentation, and that necessary records are retained. Section 2784 also requires that regulations must provide that appropriate adverse personnel actions or other punishment be imposed when DoD employees misuse purchase cards.

Government Accountability Office (GAO) has identified categories of purchase card misuse, such as improper and questionable transactions. GAO defines improper transactions as purchases intended for Government use, but not permitted by law, regulation, DoD policy, or DoD Component policy. Questionable transactions are transactions with insufficient documentation to determine whether they are valid.

**DoD Purchase Card Joint Program Management Office.** The DoD Purchase Card Joint Program Management Office (PMO) was established by the Deputy Secretary of Defense in March 1998. The PMO is the executive agent for DoD purchase cards. The PMO is responsible for coordinating contract requirements with the General Service Administration, deploying a standard DoD-wide card management and reconciliation system, and developing a DoD-wide training program. Representatives from each of the Military Departments, the Defense Logistics Agency, and the Defense Finance and Accounting Service staff the PMO. Of the 5.4 million purchases made by DoD cardholders during the 6-month period ending March 31, 2003, about 525,000 purchases, valued at \$350 million, were made by cardholders located outside the United States.

**How the DoD Program Works.** According to a PMO official, Revision 1 of DoD “Government Purchase Card Concept of Operations” (DoD Concept of Operations), March 31, 2003, was developed by an Integrated Project Team, under the guidance of the PMO. The DoD Concept of Operations provides an overview of the processes to establish and operate a purchase card program. It provides DoD Components a foundation upon which to build their specific Government purchase card guidance. DoD Components are responsible for distributing cards, training employees, and day-to-day management of the purchase card program. Each participating Component designates an office to manage the program and to ensure that training is provided and that an annual oversight review of the program is performed.

**DoDEA Purchase Card Program.** DoDDS-Europe made approximately 12,000 purchase card transactions, valued at \$8.4 million, during the 6-month period ending March 31, 2003. The DoDEA guidance, “Government Purchase

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Card (US Bank I.M.P.A.C.<sup>4</sup> Government Services) Program” (the DoDEA Program Guidance), January 2000, and DoDEA Administrative Instruction 8000.1, “Use of The Governmentwide Purchase Card,” April 3, 2001, augment other Federal and DoD regulations in prescribing policies and procedures for the use of purchase cards by DoDEA employees. The agency program coordinator (APC), approving officials (AOs), and cardholder are responsible for aspects of the DoDEA purchase card program.

**APC Responsibilities.** The APC is responsible for the purchase card program and determines who participates in the program. DoDEA has an APC and DoDDS-Europe has an APC. The APC is responsible for providing purchase card training. Other duties include conducting yearly on-site reviews of the AO and cardholder records, which includes verifying that the files have adequate documentation and initiating the revocation and suspension of purchase card account privileges for individuals who violate purchase card procedures.

**AO Responsibilities.** The AO is responsible for reviewing cardholders’ monthly statements and signing the statements to confirm their accuracy. By signing the monthly statement, the AO also verifies that all transactions were necessary Government purchases and in accordance with governing policies and procedures. The AO is responsible for recommending the purchase card limits for cardholders and signing purchase requests to authorize transactions. Other duties include resolving questionable purchases with the cardholder and maintaining official documentation to support transactions.

**Cardholder Responsibilities.** The cardholder is an individual who is authorized to make official purchases up to a specified dollar limit. The cardholder must ensure that all purchases are made for a legitimate need at a fair and reasonable price. The cardholder’s duties include preparing and signing purchase requests, maintaining a purchase log, reviewing all transactions in a timely manner, approving monthly statements, and tracking and verifying receipt of items purchased. The cardholder must also maintain an audit trail of purchases, including receipts and other supporting documentation, and retain all records in accordance with Government standards.

## Objectives

Our overall audit objective was to determine whether purchase card transactions originating outside the United States were appropriate. Specifically, we used data mining techniques to identify high-risk transactions that appeared to be prohibited by guidance or that met a fraud profile or both. We limited the scope of this project to selected transactions by DoDDS-Europe. We reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology and the review of the management control program. See Appendix B for prior coverage related to the objectives.

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<sup>4</sup>Purchase cards were formerly known as International Merchant Purchase Authorization Cards.

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## Controls Over the DoD Dependents Schools-Europe Purchase Card Program

Implementation of controls over the purchase card program in DoDDS-Europe needed improvement. Specifically, for 22 accounts and 411 transactions, valued at about \$2.1 million, DoDDS-Europe did not follow internal controls before, during, or after purchases. Specifically, the discrepancies included:

- 21 accounts that did not have proper authorization or reasonable purchase limits;
- 261 transactions, valued at \$988,993, that were not supported by available documentation, permitted by guidance, or competitively acquired; and
- 411 transactions, valued at about \$2.1 million, that were not reconciled and approved prior to payment or properly accounted for upon receipt.

Some accounts and transactions had multiple discrepancies. When we summarized more than one discrepancy, we only counted the account or transaction with multiple discrepancies once.

Controls needed improvement because DoDEA management did not adequately oversee the purchase card program. Specifically, DoDDS-Europe management did not devote adequate human capital and travel resources to program oversight, and DoDEA management did not create guidance that was consistent, complete, and distributed to program officials. In addition, DoDEA management did not provide the discipline, structure, and climate necessary to implement effective internal controls.

As a result, DoDDS-Europe made \$2.09 million in questionable purchases including \$113,326<sup>5</sup> for merchandise that could not be located on property records, \$259,605 for official travel of DoDDS-Europe employees, and \$76,220 of purchases made without the required competition. In addition, DoDDS-Europe used up to \$22,574 in operation and maintenance funds for improper entertainment and refreshment purchases. Further, DoDDS-Europe had no assurance that questionable or improper purchases would be prevented or promptly identified, that purchased goods and services would be received and protected from theft and unauthorized use, that reasonable prices would be paid for goods and services, or that spending would be limited to available funding.

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<sup>5</sup>Two months after our field visit, a DoDDS-Europe official stated that although most of the records of accountable property had been corrected, DoDDS-Europe was still unable to account for property valued at \$13,755.

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## Internal Controls Requirements

According to the GAO publication, “Standards for Internal Control in the Federal Government,” November 1999, internal controls should provide reasonable assurance that an organization’s resources are used effectively and efficiently. Internal controls provide reasonable assurance that an organization complies with applicable laws and regulations. Effective internal controls require a positive control environment. A positive control environment provides the discipline, structure, and climate that influence the quality of internal controls. Management plays a key role in establishing a positive control environment because management sets and maintains the organization’s ethical tone, provides guidance for proper behavior, removes temptations for improper behavior, and provides appropriate discipline. Management needs to establish policies and procedures for processing approvals, limiting spending to budgeted funds, performing reconciliations, retaining records, safeguarding assets, and disciplining personnel.

DoD Financial Management Regulation, volume 10, chapter 12, “Miscellaneous Payments,” February 1996; 10 U.S.C. 2784; and DoDEA Program Guidance require that records be retained to support the integrity of the purchase card program and to facilitate in the reconciliation and payment of purchase card transactions. Cardholders are required to establish clear audit trails for purchase card transactions by maintaining documentation to support each purchase including requisitions, logs, receipts, charge tickets, and credit slips.

## Implementing Internal Controls Before Purchase

Before purchases, DoDDS-Europe did not follow the internal controls for authorizations or purchase limits for 21 of the 22 accounts<sup>6</sup> we reviewed. Specifically:

- 1 account had improper authorization,
- 12 accounts had unreasonable purchase limits, and
- 8 accounts had both improper authorization and unreasonable spending limits.

### Account Authorization

The 9 accounts that did not have proper authorization were used to make 162 of the 411 transactions, valued at \$1.9 million. The Federal Acquisition Regulation (FAR) 1.603-3, “Appointment,” and FAR 13.301, “Governmentwide

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<sup>6</sup>We reviewed 19 cardholders who had 22 accounts. Three cardholders had two accounts each. For two cardholders, one account was for purchases and the other account was for contract payments. For one cardholder, one account was for a cancelled purchase card and one account was for the replacement purchase card.

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Commercial Purchase Card,” require that cardholders have written appointment letters. Appointment letters authorize cardholders to make purchase card transactions up to a specified dollar limit. Of the 9 accounts:

- 4 accounts with 66 transactions, valued at \$389,760, did not have appointment letters in the records;
- 3 accounts with 72 transactions, valued at \$972,168, had an appointment letter that gave a range of \$25,000 to \$1 million, rather than a specific single purchase limit;
- 1 account with 19 transactions, valued at \$14,655, had an appointment letter that was not in effect on the date the purchases were made; and
- 1 account with 5 transactions, valued at \$543,876, had both an appointment letter that gave a range of \$25,000 to \$1 million and was not in effect on the date the purchases were made.

The APC at DoDDS-Europe stated that appointment letters were not always retained for cardholders who were no longer employed by DoDDS-Europe or who had been issued new appointment letters.

DoD should have a record of the spending limits for each cardholder, as required by 10 U.S.C. 2784. In addition, DoD Financial Management Regulation, volume 10, chapter 12, requires documentation to support each purchase. Because appointment letters are the only historical document showing the single purchase limit in existence at the time of the purchase, appointment letters should be retained.

## **Purchase Limit**

Purchase limits were not reasonable for 20 of the 22 accounts reviewed. According to 10 U.S.C. 2784, DoD is required to have specific policies regarding purchase limits in order to minimize the financial risk to the U.S. Government and to ensure the integrity of the cardholders. The General Services Administration, “Blueprint for Success: Purchase Card Oversight,” April 2002, states that purchase limits that are realistic, but not excessive, will limit cardholder misuse. Realistic purchase limits will minimize cardholder misuse and the financial risk to the U.S. Government.

Both single purchase and monthly purchase limits should be established for each account. A single purchase limit is the maximum a cardholder can spend per transaction. A monthly purchase limit is the maximum a cardholder can spend per month. Of the 20 accounts:

- 4 accounts had unreasonable single purchase limits,
- 4 accounts had unreasonable monthly purchase limits, and
- 12 accounts had unreasonable single and monthly purchase limits.

**Single Purchase Limits.** Single purchase limits were not reasonable for 16 accounts reviewed. Of the 16 accounts, 13 accounts were not reasonable when evaluated against the highest single purchase of each account and 3 accounts were not reasonable when evaluated against the DoDEA Program Guidance.

**Evaluation of Highest Single Purchases.** For 13 accounts, the single purchase limits were not reasonable when evaluated against the highest single purchase of each account. When the highest single purchase was less than one third of the single purchase limit, we determined that the single purchase limit was too high, and therefore, unreasonable. Table 1 shows the single purchase limit for each of the 22 accounts compared with the highest single purchase made in the 6-month period ending March 31, 2003.

**Table 1. Single Purchase Limits Compared With Highest Single Purchase**

<u>Single Purchase Limit</u>	<u>Highest Single Purchase</u>	<u>Number of Accounts</u>	<u>Limit(s) Reasonable</u>
\$ 2,500	\$ 195	1	No
25,000	11,948	1	Yes
25,000	5,955	3	No
25,000	2,894	4	No
25,000	771	2	No
25,000	98	2	No
100,000	4,797	1	No
Unknown*	198,623	8	Unknown

\*For four accounts, the single purchase limit was unknown because the cardholders' appointment letters were not available. For four accounts, the single purchase limit was unknown because the appointment letters stated a range (\$25,000 to \$1,000,000) instead of a specific dollar amount for the single purchase limit.

**Compliance With DoDEA Program Guidance.** For three accounts, DoDDS-Europe did not establish single purchase limits that complied with the DoDEA Program Guidance, which requires that warranted contracting officers make all contract payments over \$25,000. Because none of the cardholders reviewed were warranted contracting officers, the single purchase limits should not have exceeded \$25,000. However, 3 cardholders, with 3 accounts, made 12 contract payments that exceeded \$25,000, totaling \$1.3 million. The DoDEA Program Guidance also prohibits contract payments over \$100,000 but one of the three cardholders made six contract payments that exceeded \$100,000, totaling \$1 million.

**Monthly Purchase Limits.** Monthly purchase limits were not reasonable for 16 accounts reviewed. Of the 16 accounts:

- 9 accounts had monthly purchase limits that were unreasonable when evaluated against the highest monthly purchases,
- 1 account had monthly purchase limits that were unreasonable when evaluated against the annual budgets, and
- 6 accounts had both monthly purchase limits were unreasonable when evaluated against the highest monthly purchases and the annual budgets.

**Evaluation of Highest Monthly Purchases.** For 15 accounts, the monthly purchase limits were not reasonable when evaluated against the highest monthly purchases. When the highest monthly purchases were less than one third of the highest monthly purchase limit, we determined that the monthly purchase limit was too high, and therefore, unreasonable. Table 2 shows the highest monthly purchase limit for the 22 accounts compared with the highest monthly purchases in the 6-month period ending March 31, 2003.

**Table 2. Monthly Purchase Limit Compared With Highest Monthly Purchases**

<u>Highest Monthly Purchase Limit</u>	<u>Highest Monthly Purchases</u>	<u>Number of Accounts</u>	<u>Limit(s) Reasonable</u>
Unknown <sup>1</sup>	\$ 195.00	2	Unknown
\$1,000,000	337,202.68	1	Yes
900,000	390,588.22	1	Yes
700,000	130,370.50	2	No
500,000	353,301.49	1	Yes
250,000	33,430.68	1	No
100,000	43,680.85	1	Yes
100,000	16,346.98	5	No
75,000	39,948.07	1	Yes
75,000	12,511.08	6	No
20,000	3,878.65	1	No

<sup>1</sup>For two accounts, the monthly purchase limit was unknown because the monthly statements for the accounts were not available.

**Evaluation of Annual Budgets.** The monthly purchase limits were not reasonable when evaluated against budgeted funds for seven of the accounts reviewed. To determine whether the monthly purchase limits were reasonable, we analyzed all accounts at each school, including 3 accounts that were not included in the 22 accounts selected. We compared the annualized total monthly purchase limit (total monthly limit of all accounts at the school multiplied by 12 months) to

each school's annual budget as of August 2003 for goods or services that can be purchased with the purchase card. Table 3 shows the results of our comparison of the total monthly purchase limit to the schools' budgets.

**Table 3. Monthly and Annual Purchase Limits Compared With Annual Budgets**

<u>School</u>	<u>Purchase Card Limit Monthly</u>	<u>Annual Limit</u>	<u>Annual Budget</u>	<u>Annual Limit in Excess of Annual Budget</u>
Aukumm Elementary	\$150,000	\$ 1,800,000	\$ 75,914	\$1,724,086
London Central High and Dormitory	275,000	3,300,000	384,824	2,915,176
Mannheim High	150,000	1,800,000	82,317	1,717,683
Wiesbaden High	<u>300,000</u>	<u>3,600,000</u>	<u>123,354</u>	<u>3,476,646</u>
<b>Total</b>	<b>\$875,000</b>	<b>\$10,500,000</b>	<b>\$666,409</b>	<b>\$9,833,591</b>

## Implementing Internal Controls During Purchase

DoDDS-Europe did not follow internal controls during purchase for 261 of 411 transactions, valued at \$988,993. Specifically, 261 transactions were either not supported by available documentation, not permitted by guidance, or not competitively acquired. Some transactions had multiple discrepancies. When we summarized more than one discrepancy, we only counted the transaction with multiple discrepancies once.

### Transaction Authorization Documentation

Out of 411 transactions, 198 transactions, valued at \$912,856, did not have proper authorization documentation. DoDEA Program Guidance requires the AO to authorize purchases by signing a purchase request. The AO signature designates that the purchase meets all program conditions and is for official use. In addition, training documents require purchase requests to be signed by the cardholder. The



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cardholder's signature designates that the goods or services are required. However, purchase requests could not always be located and were not always signed.

- For 31 transactions, valued at \$58,246, the purchase request could not be located.
- For 38 transactions, valued at \$25,573, the purchase request did not have an AO signature.
- For 129 transactions, valued at \$829,037, the purchase request had neither an AO nor a cardholder signature.

## **Entertainment and Refreshment Purchases**

Out of the 411 transactions, 62 transactions for entertainment and refreshments, valued at up to \$22,574, were not permitted by the DoDEA criteria that was in effect when the transactions were made. DS Regulation 7100.3, "DoD Dependents Schools Use of Appropriated Funds," April 17, 1990, did not permit entertainment and refreshment purchases. In addition, DoD Financial Management Regulation, volume 10, chapter 11, "Payment as Reimbursement for Personal Expenditures," February 1996, states that, as a general rule, appropriated funds cannot be used for entertainment except when specifically authorized by statute.

**Entertainment Purchases.** DS Regulation 7100.3 did not permit 43 entertainment purchases, totaling \$20,075, at the London Central High School Dormitory for field trips for the dormitory students and their chaperones. DS Regulation 7100.3 provides that appropriated funds cannot be used to purchase:

- entertainment for students and employees;
- field trips that are not normally supplied as part of the school curriculum by comparable tax-supported public schools in the United States; or
- fees, transportation, or other costs used in student activities that are not programmed as part of the standard course of instruction or not formally recognized as an extra-curricular activity.

Table 4 shows the types of entertainment, which were primarily field trips, the number of purchases for that type of activity, and the total value of the purchases. The field trips were to sports activities, such as indoor water parks, laser tag, go-karts, and paintball; theaters; motion pictures; spectator sports, such as basketball and hockey games; and sightseeing. The entertainment purchases were for optional weekend field trips that were available, free of charge, to all dormitory students but were not available to non-boarding students of London Central High School.

**Table 4. Entertainment Purchases at the London Central High School Dormitory**

<u>Type of Entertainment</u>	<u>Number of Purchases</u>	<u>Value of Purchases</u>
Sports Activity	16	\$ 7,583.82
Theater	13	5,456.64
Motion Picture	8	5,375.29
Spectator Sports	4	566.49
Sightseeing	1	475.32
Sports Activity and Motion Picture	<u>1</u>	<u>617.00</u>
<b>Total</b>	<b>43</b>	<b>\$20,074.56</b>

**Field Trips at Other Tax-Supported Public Schools.** Not all tax-supported public boarding schools in the United States supply free weekend field trips. According to DS Regulation 7100.3, the standard for determining whether field trips are allowed is whether they are “normally supplied as part of the school curriculum by comparable tax supported schools in the United States.” We examined entertainment at other tax-supported schools in the United States, such as those operated by the U.S. Congress and the Bureau of Indian Affairs.

The U.S. Congress operates two boarding schools for Pages. The Pages are high school students who attend morning classes and principally serve as messengers for the U.S. House and Senate. The residence halls are funded by appropriated funds and student fees. House and Senate Pages pay a monthly fee to a revolving fund. Lodging, meals, and related services for House Pages are paid through the revolving fund, as established in 2 U.S.C. 88b-5. Food and fund activities for Senate Pages are paid through the revolving fund, as established in 2 U.S.C. 88b-7. According to officials at the U.S. Senate Page School, the revolving fund is used to pay for field trips, and appropriated funds are not used for student entertainment expenses. Appropriated funds are only used to pay for transportation and chaperones.

For schools operated by the Bureau of Indian Affairs, 25 Code of Federal Regulations, section 36.74 (2003), “Homeliving (dormitory operations),” provides that leisure-time activities shall be provided to dormitory students. Those activities may include recreational activities, clubs, arts and crafts, and the reading of newspapers and periodicals. According to an official at the Bureau of Indian Affairs, appropriated funds are used to pay for students’ leisure-time activities.

We contacted officials at school districts in two states and could find no examples of where the school funded weekend field trips for students. For students at those tax-supported public schools, either the students or the parents were responsible for paying for trips similar to those supplied, free of charge, to students at the London Central High School Dormitory.

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**Field Trips Are Optional.** At the London Central High School Dormitory, the field trips were optional. By comparison, according to officials at the U.S. Senate Page School, most field trips offered to the Senate Pages are mandatory. The Senate Pages are required to attend all educational and enrichment field trips. Only recreational activities such as trips to amusement parks are optional for Senate Pages, and those trips are funded by the students.

**Field Trips Not Available to All Students.** The field trips at London Central High School Dormitory were not made available to non-boarding students. DS Regulation 7100.3 states that appropriated funds can only be used for student activities that are programmed as part of the standard course of instruction or are formally recognized as an extra-curricular activity. The DoDEA "Community Strategic Plan," March 2001, provides that all students should have equitable access to programs. The Community Strategic Plan also provides that "all students will have access to varied and challenging learning opportunities." However the non-boarding school students who attended London Central High School were not allowed to participate in the field trips. By comparison, an official at the Bureau of Indian Affairs stated that when boarding and non-boarding students attend school together, the non-boarding students are given the same opportunities to participate in field trips as the boarding students.

**Refreshment Purchases.** Refreshment purchases include food, drinks, and water. Of the 411 purchases, 19 purchases, valued at \$2,499, included refreshment purchases, which were not permitted.

**Food and Drink Purchases.** Of the 19 purchases, 17 purchases, totaling \$2,445, included food and drinks, which were not permitted. The purchases were for non-boarding students, DoDDS-Europe employees, and guests. DS Regulation 7100.3 provides that, except for subsidized school lunches or food for dormitory students, appropriated funds cannot be used to purchase food for students or refreshments for DoDDS employees, students, and guests.

Drink purchases included coffee breaks for 1-day conferences at a hotel and food and drinks for elementary school students, high school home economics, and special education classes. According to DoDDS-Europe officials, purchases were not for subsidized school lunches but were for other meals, snacks, and curriculum-related activities, such as cooking and teaching math with candy. According to DoDDS-Europe officials, the food for special education classes was used to teach daily living skills, including food preparation. These purchases were prohibited by DS Regulation 7100.3.

**Water Purchases.** Of the 19 purchases, 2 purchases, totaling \$53.97, were for water, which was not permitted. The water was for DoDDS-Europe employees. DoD Financial Management Regulation, volume 10, chapter 12, provides that appropriated funds cannot be used to purchase water except in specific circumstances, such as when the public water is unsafe for human consumption.

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## Travel Purchases

Twenty-three purchase card transactions for official travel by DoDDS-Europe employees that included meals, lodging at conferences, and transportation, valued at \$259,605, were not permitted. DoDEA Program Guidance prohibits the use of the purchase cards for official travel expenses including transportation, food, drinks, entertainment, lodging, rental cars, and gas. The employees should have used individual Government travel cards and filed a travel voucher for official travel reimbursement. Alternatively, a centrally billed travel card could have been used to pay for the conferences.

## Competitive Purchases

For transactions over \$2,500 that were not contract payments, DoDDS-Europe did not competitively acquire 38 out of the 46 transactions, valued at \$76,220. The FAR 13.104, "Promoting Competition," requires maximum practicable competition for transactions over \$2,500 that are not contract payments. Maximum practicable competition requires quotes from a minimum of three sources. DoDDS-Europe did not obtain a minimum of 3 quotes for 38 non-contract transactions that were over \$2,500. For example, a DoDDS-Europe cardholder purchased football equipment, valued at \$3,630, and did not obtain a minimum of three quotes.

## Implementing Controls After Purchase

DoDDS-Europe did not follow internal controls after purchase for all 411 of the transactions reviewed, valued at roughly \$2.1 million. Specifically, transactions were not reconciled or approved prior to payment or properly accounted for upon receipt. Some transactions had multiple discrepancies. When we summarized more than one discrepancy, we only counted the transaction with multiple discrepancies once.

**Reconciliation and Approval of Monthly Statements.** DoDDS-Europe did not reconcile and approve monthly statements for 267 of 411 transactions, valued at \$951,078. Charges on each monthly statement are required by 10 U.S.C. 2784 to be reconciled with supporting documentation. Supporting documentation includes merchant receipts and purchase logs. However, supporting documentation could not always be located, and therefore, statements could not be reconciled. Some transactions had multiple discrepancies.

- For 84 transactions, valued at \$409,185, the transactions were not on the cardholders' purchase logs.
- For 116 transactions, valued at \$762,640, the merchant receipts were not retained.

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- For two transactions, valued at \$83,616, the monthly statements were not retained.
  - For 201 transactions, valued at \$916,236, the cost on the monthly statement did not reconcile with the cost on the purchase log or merchant receipts, or both.

Statements should be reconciled monthly to ensure that the correct amount is billed. Reconciliations are also necessary for proper budget execution because a DoDDS-Europe official stated that the schools use the purchase log to track expenditures; therefore, it is important for the purchase log to accurately reflect the actual expenditures. However, the purchase log did not always reflect the amount billed. Without recording actual expenditures on the purchase log, the schools could not know the exact status of the budget execution.

The DoD Concept of Operations requires the cardholder to approve the monthly statement and the AO to sign the monthly statement. The cardholder's signature indicates that, unless otherwise noted, the purchases and amounts are correct; are required to fulfill mission requirements; are not for personal use; and are not items specifically prohibited by law, regulation, or guidance. The AO signature indicates that the transactions are legal, proper, and correct. However, the cardholders and the AOs did not always approve the monthly statement.

- For 5 transactions, valued at \$5,414, the monthly statement did not have a cardholder signature.
- For 125 transactions, valued at \$624,747, the monthly statement did not have an AO signature.
- For 26 transactions, valued at \$130,811, the monthly bank statement had neither a cardholder nor an AO signature.

**Recording of Items Received.** DoDDS-Europe did not ensure that goods and services were properly accounted for upon receipt for all 411 transactions reviewed, valued at about \$2.1 million. The DoD Concept of Operations requires that purchase logs show the date the goods or services were received and the name of the individual receiving the goods or services. DoDEA Manual 4100.2, "Material Management Manual," August 28, 1997, also requires accountable property, such as computers, printers, and projectors, to be recorded on property records. However, DoDDS-Europe did not always properly account for goods and services.

- For all 411 transactions, valued at about \$2.1 million, the purchase log did not show the name of the individual who received the goods or services.

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- For 41 out of 47<sup>7</sup> accountable property transactions, valued at \$113,326, DoDDS-Europe had no audit trail to connect the transactions with the property records at the time of our visit.

Two months after our visit, a DoDDS-Europe official stated that most of the records of accountable property had been corrected. However, the official stated that DoDDS-Europe was unable to properly account for one computer, four video projectors, and five printers. As of November 2003, the total value of the property that DoDDS-Europe could not account for was \$13,755.

Property received should be recorded to ensure that all items have been received, particularly when one order arrives in multiple shipments. Recording accountable property helps protect property from misuse and theft.

## **Overseeing the Purchase Card Program**

DoDEA management did not adequately oversee the purchase card program. Specifically, DoDDS-Europe management did not devote adequate human capital and travel resources to program oversight and DoDEA management did not create guidance that was consistent, complete, and distributed to program officials. In addition, DoDDS-Europe management did not provide the discipline, structure, and climate necessary to implement effective internal controls.

### **Human Capital Resources**

DoDDS-Europe management did not devote adequate human capital to program oversight. A June 2003 program management review by the APC at DoDEA headquarters determined that DoDDS-Europe needed an additional APC for the oversight process. There was only 1 APC in Europe to oversee the program, which had 306 cardholders and 200 AOs at locations from Iceland to Bahrain. On July 14, 2003, the APC at DoDEA headquarters recommended two full time APCs to oversee the program in Europe. The recommendation was based on the magnitude and size of the European program.

DoDDS-Europe officials agreed that one APC was not adequate to oversee the purchase card program. On August 8, 2003, DoDDS-Europe requested approval to hire an additional full-time APC. According to a DoDDS-Europe official, the additional position was approved on September 9, 2003. A DoDDS-Europe official stated that the second APC was selected on September 2, 2004.

### **Travel Resources**

DoDDS-Europe management did not devote adequate travel resources for required annual inspections of the 306 cardholders and 200 AOs located from Iceland to Bahrain. Because of a shortage of travel funds, annual inspections

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<sup>7</sup>Forty-seven of the 411 transactions were for accountable property.

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were limited to the area where the APC in Europe was stationed and to locations where the APC in Europe was to provide training. However, the DoDEA Program Guidance requires APCs to conduct annual on-site inspections of purchase card files. DoDDS-Europe should devote the travel resources necessary to complete the required annual on-site inspections by the APC in Europe. A DoDEA official stated that for FY 2005, the DoDEA European Procurement Office has received approval for funding to perform the annual inspections.

## **Existing Guidance**

Existing guidance was inconsistent and incomplete. In addition, the existing guidance had not been distributed to program officials at DoDDS-Europe.

**Consistency of Guidance.** DoDEA management established school policies that, contrary to DS Regulation 7100.3, endorsed entertainment and refreshment purchases. The school policies endorsed entertainment for the London Central High School Dormitory students and food and drinks for students in kindergarten, elementary school, special education, and home economics classes.

**Entertainment for Dormitory Students.** DoDDS management established a school policy for the London Central High School Dormitory students that endorsed entertainment purchases, contrary to existing regulations. The DoDDS Atlantic Region Policy Statement Number 216-91, “Home-Away-From-Home Residence Hall Program,” May 24, 1991, provides that the dormitory student program will be supported to the fullest extent allowed by directives, funds, personnel, and other resources. It states that:

Recreation . . . opportunities are provided for the development of a wide range of leisure-time activities and hobbies. Emphasis is on physical, social, and cultural activities to provide opportunities for students to experience another culture; pursue games and hobbies, which may be continued into their adult life; and develop sensitivity and appreciation through experiencing a variety of inter-personal and social situations.

DoD Financial Management Regulation, volume 10, chapter 11, states that as a general rule, appropriated funds cannot be used for entertainment except when specifically authorized by statute. DS Regulation 7100.3 states that appropriated funds should not be used for entertainment expenses. DS Regulation 7100.3 is dated April 17, 1990, and takes precedence over the DoDDS Atlantic Region Policy Statement Number 216-91. Also, because the DoDDS Atlantic Region Policy Statement Number 216-91 provides that recreation opportunities are only allowed to the extent authorized by directives, the entertainment purchases with appropriated funds should never have been allowed. However, the cardholder at London Central High School Dormitory stated that he was not aware that entertainment purchases were prohibited until approximately June 2003.

To address the inconsistent guidance, DoDEA issued Regulation 7100.4, “Use of Appropriated Funds for the Home-Away-From-Home Program,” March 25, 2004. Regulation 7100.4 provides new guidance for dormitory

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students and includes an exception to DS Regulation 7100.3. DoDEA Regulation 7100.4 provides that appropriated funds can be used for activities that are:

- educational, such as trips to museums, battlefields, or globally significant sites such as Stonehenge;
- cultural, such as walking tours of London, the Cabinet War Rooms, and activities like the Highland Games; or
- experiential, such as trekking, rock climbing, and camping.

Although DoDEA Regulation 7100.4 provides guidance for entertainment purchases, it does not provide complete guidance. DoDEA Regulation 7100.4 prohibits ski trips and laser tag because those activities are considered to be primarily for entertainment. Although Shakespeare plays are allowed, contemporary plays are allowed only in rare circumstances. However, DoDEA Regulation 7100.4 does not address all types of entertainment purchases that we identified. For example, DoDEA Regulation 7100.4 does not address using appropriated funds for spectator sports, paintball, go-karts, indoor water parks, and motion pictures. DoDEA should revise DoDEA Regulation 7100.4 to provide a complete guide on what types of entertainment can be purchased with appropriated funds and what types of entertainment must be purchased by the student or parent.

We do not believe the entertainment purchases made by the London Central High School Dormitory were reasonably necessary for educating the students. According to the Comptroller General opinions, expenses must be reasonably necessary for an authorized function. Because the mission of DoDEA is to educate students, entertainment purchases should be reasonably necessary for educating students. However, because the activities were optional, not available to all students, and not available at other tax-supported schools, we do not believe the types of entertainment provided by the London Central High School Dormitory were reasonably necessary. Although DoDEA coordinated DoDEA Regulation 7100.4 with the DoD Associate Deputy General Counsel (Fiscal) before issuance, additional review and approval is necessary. The DoD Associate Deputy General Counsel (Fiscal) stated that he was not aware that the activities at the London Central High School Dormitory were not mandatory for all students. For example, he stated that he was not aware that less than 20 percent of boarding students went on the Windsor Castle and Houses of Parliament trips. In addition, he was not aware that activities were not available to non-boarding students. Therefore, DoDEA should submit the revised DoDEA Regulation 7100.4 to the DoD Deputy General Counsel (Fiscal) for a formal legal review and approval.

**Refreshments for Non-Boarding Students.** DoDEA management established policies that, contrary to DS Regulation 7100.3, endorsed refreshment purchases. For example, food preparation is part of the Food Management and Science Course for students in grades 9 through 12. Although we agree that some of the food purchases appear to be reasonably necessary for educating students, DS Regulation 7100.3 prohibits food purchases except for dormitory students and



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subsidized school lunches. DoDDS-Europe also purchased food and drinks for meals and snacks, which were not reasonably necessary for educating students. To provide consistent guidance, DoDEA should issue overarching guidance that prohibits food purchases for snacks and meals other than subsidized school lunches and should specify when food purchases are reasonably necessary for educating students.

**Completeness of Guidance.** Both the DoDEA Program Guidance and Administrative Instruction 8000.1 are incomplete. Appendixes of the DoDEA Program Guidance that should have contained items such as sample purchase logs were left blank. Neither the DoDEA Program Guidance nor the Administrative Instruction 8000.1 address purchases of entertainment and refreshments or record retention for cardholders no longer employed by DoDEA. Because DoDDS-Europe recently began enforcing a 5-year maximum tour of duty in Europe, DoDDS-Europe can expect a regular turnover of cardholders. For example, none of the files of the three cardholders who were no longer employed by DoDDS-Europe contained a complete historical record of transactions. Although the APC had some of the cardholders' files, he did not have all of the supporting documentation necessary. Therefore, it is important that DoDEA address record retention as rotation of cardholders will continue and retention of historical documents is necessary. Also, neither DoDEA Program Guidance nor Administrative Instruction 8000.1 address the retention of appointment letters. Because appointment letters are the only historical document showing the single purchase limit, DoDEA should require that appointment letters be retained. Further, neither the DoDEA Program Guidance nor Administrative Instruction 8000.1 address procedures for setting and reviewing the single and monthly purchase limits. To provide complete guidance, DoDEA should revise and issue Administrative Instruction 8000.1 as overarching guidance that addresses purchases logs, including all elements that are mandatory according to the DoD Concept of Operations; entertainment and refreshments purchases; record retention; and purchase limits. The reissued Administrative Instruction 8000.1 should supersede the DoDEA Program Guidance.

**DoDEA Program Guidance Distribution.** The DoDEA Program Guidance was not distributed to program officials at DoDDS-Europe. For example, the APC in Europe was not aware of the DoDEA Program Guidance. In addition, the Guidance was not posted to the DoDEA Web site. DoDEA should ensure that purchase card guidance is distributed to all employees involved with the purchase card program and posted to its Web site. DoDEA should also train employees on the guidance.

**Management Actions Being Taken.** The Director, DoDEA stated that DoDEA intends to rescind the previous purchase card policies and is revising Administrative Instruction 8000.1 to address prohibited purchases, price competition, documentation requirements, and disciplinary actions if the new guidance is not followed. DoDEA is also developing a DoDEA Government Purchase Card Training Guide to address purchases of food and water. In addition, all cardholders and AOs will be retrained on the new guidance. However, because multiple sources of guidance resulted in inconsistencies involving purchases, DoDEA should revise and issue Administrative Instruction 8000.1 as the overarching purchase card guidance, including items

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such as food and water purchases. Overarching guidance will help to ensure that all guidance is consistent, complete, and distributed to purchase card officials.

## **Effective Internal Controls**

DoDDS-Europe management did not provide the discipline, structure, and climate necessary to implement effective internal controls. Although the DoDDS-Europe oversight process identified the entertainment purchases, the Superintendent of the Isles District School Office allowed the purchases to continue after receiving legal opinions stating that entertainment purchases were improper. In addition, DoDDS-Europe management did not take corrective action in accordance with DoDEA guidance.

**First Legal Opinion on Entertainment Purchases.** In June 2003, DoDDS-Europe management was informed that, according to a legal opinion, appropriated funds should not be used for entertainment purchases. The APC in Europe requested and received the legal opinion after identifying entertainment purchases in November 2002. The June 4, 2003, legal opinion from DoDEA Assistant General Counsel states that “case and statutory law do not support the Agency’s use of APF [appropriated funds] for entertainment purposes for students living at the London Central Dormitory.” The opinion states that appropriated funds can only be used for expenses that are reasonably necessary for educating students. After obtaining the legal opinion, the APC in Europe stated that he verbally notified the cardholders at the London Central High School Dormitory that the purchase card should not be used for entertainment purchases. In addition, the APC in Europe stated that the legal opinion was coordinated with officials at the Isles District School Office and DoDDS-Europe headquarters.

On June 26, 2003, the DoDEA European Procurement Office, which oversees the purchase card program of DoDDS-Europe, sent a memorandum and the legal opinion to the London Central High School and to the cardholders at the London Central High School and the London Central High School Dormitory. The memorandum stated that entertainment and recreational purchases were not legal and that “recreational/entertainment purchases shall not be made by your cardholders. If these type of purchases continue, your cardholders will have their credit cards suspended or even terminated.”

**Additional Legal Opinions.** The Superintendent of the Isles District School Office was given an additional legal opinion on entertainment purchases. On August 15, 2003, DoDEA Assistant General Counsel sent the Superintendent an e-mail on entertainment expenses stating “there are going to be some limits on these types of expenses that perhaps have not been observed in the past.” The e-mail included a message from the DoD Associate Deputy General Counsel (Fiscal), dated August 14, 2003, stating that the DS Regulation 7100.3 is a proper standard for determining whether appropriated funds could be used to pay for field trips. DS Regulation 7100.3 states that appropriated funds cannot be used for field trips, such as weekend ski trips, not normally supplied as part of the school curriculum by comparable tax-supported public schools in the United States. The DoD Associate Deputy General Counsel stated that “London theater tickets are

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clearly not permissible. However, transportation to a museum would probably be okay. There is some (but not unlimited) discretion in the application of this standard.”

**Entertainment Purchases Allowed to Continue.** The Superintendent of the Isles District School Office allowed the purchases to continue even after receiving the June and August 2003 legal opinions stating that entertainment purchases were improper. Entertainment purchases<sup>8</sup> for 78 London Central High School Dormitory students in September 2003 totaled \$1,359, excluding the cost of transportation. Purchases included 36 tickets for a ferris wheel ride, 25 tickets for an indoor water park, 20 tickets for laser tag games, 15 tickets for a Houses of Parliament tour, and 14 tickets for Windsor Castle. After the DoDEA European Procurement Office suspended the London Central High School Dormitory cardholder’s purchase card in September 2003, the DoDEA Legal Office began to review all field trips before purchases were allowed.

The cardholder at London Central High School Dormitory stated that the Superintendent of the Isles District School Office and the Director DoDDS-Europe allowed trips to be scheduled as long as they were cultural, historical, or recreational. After receiving two legal opinions in June and August 2003, the Superintendent stated on September 30, 2003, that she had received no additional guidance from DoDEA and that she believed that entertainment purchases should be allowed for the remainder of the 2003-2004 school year. By delaying any changes until the 2004-2005 school year, the Superintendent stated that she believed London Central High School Dormitory could adequately inform parents without undue financial hardship. She stated that she had approved all the entertainment purchases at the beginning of the 2003-2004 school year, totaling \$1,359, except for one. She further stated that because it was a major change in policy, she wanted a transition period, particularly because the field trips had been advertised on the London Central High School Dormitory’s Web site and in other printed material.

DoDDS-Europe management had from early June 2003 until school began on September 2, 2003, to notify parents and change its Web site to indicate that field trips would no longer be supplied free of charge. However, DoDDS-Europe did not notify parents that the parents would be responsible for paying for entertainment activities. In addition, as of October 12, 2004, the DoDEA Web site stated that dormitory students who were children of DoD employees would receive “regularly scheduled trips and extracurricular activities at no cost.” In contrast, the London Central High School Dormitory’s Web site was modified in March 2004 to state that parents would be responsible for paying for some of the following activities: theater tickets to shows such as The Lion King, Mama Mia, South Pacific, Fame, and Chicago; the London Eye; professional basketball games; and visits to theme parks. Prior to March 11, 2004, the Dormitory’s Web site did not indicate that parents would be responsible for costs associated with the listed activities.

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<sup>8</sup>Entertainment purchases by London Central High School Dormitory in September 2003 were not included in the 411 transactions we reviewed. We reviewed the September 2003 transactions solely to determine whether the cardholders at London Central High School Dormitory were complying with the legal opinions issued in June and August 2003.

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We do not believe the entertainment purchases were reasonably necessary for educating the students. Although the House of Parliament and Windsor Castle tours may be educational, they may not be necessary to educate the students if only 14 or 15 of the 78 dormitory students participated and non-boarding students could not participate. Therefore, the Office of the DoD Deputy General Counsel (Fiscal) should formally review and approve guidance on the use of appropriated funds for entertainment. DoDEA management should support and enforce the entertainment guidance approved by DoD Deputy General Counsel (Fiscal). In addition, DoDEA should modify the DoDEA Web site to make it clear that the London Central High School Dormitory will not pay for field trips that are not reasonably necessary for educating all students. DoDDS-Europe should provide an inspection report semi-annually to the DoDEA APC and the PMO addressing compliance with the DoD Purchase Card Program. The DoDEA APC and the PMO should review the semi-annual inspection report and ensure that the actions taken by DoDDS-Europe are adequate for compliance with the DoD Purchase Card Program.

**Disciplinary Action.** DoDDS-Europe management took administrative action by suspending the London Central High School Dormitory cardholder's purchase card. In addition, a DoDDS-Europe official stated that she took disciplinary action by counseling the London Central High School Dormitory cardholder and AO for making an entertainment purchase. However, DoDDS-Europe did not take action in accordance with DoDEA Regulation 5751.9, "Disciplinary and Adverse Actions," August 27, 1999, which provides a recommended range for penalties for disciplinary actions. The penalties should be within the recommended ranges unless there are mitigating or aggravating factors that justify a penalty outside the recommended range. For improper use of purchase cards, the recommended penalty is reprimand to removal for the first offense and 14-day suspension to removal for the second offense. For the entertainment purchases in the 6-month period ending March 31, 2003, there were mitigating circumstances because of the inconsistent guidance. Therefore, it is understandable that the recommended penalties were not imposed for the first offense. However, for the entertainment purchases in September, we did not find mitigating circumstances that would have precluded the recommended disciplinary action for the second offense. We believe that the first legal opinion prohibits the purchases London Central High School made in September 2003. DoDEA officials stated that the entertainment purchases during the 6-month period ending March 31, 2003, did not constitute a first offense because there were mitigating circumstances. Therefore, DoDEA officials concluded that the first offense did not occur until September 2003, when the cardholder made the one entertainment purchase, which the Superintendent of the Isles District School Office did not approve. DoDEA officials stated that management took appropriate action for the first offense in September 2003 on the basis of DoDEA Regulation 5751.9. DoDEA officials further stated that the actions taken were within the purview of DoDEA management.

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## Improper and Questionable Purchases

As a result of not implementing effective internal controls, DoDDS-Europe made \$2.09 million in questionable purchases. Examples of questionable purchases included \$113,326<sup>9</sup> for merchandise that could not be located on property records, \$259,605 for official travel of DoDDS-Europe employees, and \$76,220 for purchases made without the required competition. Questionable purchases also included transactions lacking the following documentation:

- appointment letters in effect at the time of the transaction,
- signed purchase requests,
- transactions recorded on cardholder's purchase log,
- invoices or receipts,
- signed monthly statements, and
- cost reconciliations.

In addition, DoDDS-Europe used up to \$22,574 in operation and maintenance funds for improper entertainment and refreshment purchases. Further, DoDDS-Europe has no assurance that questionable or improper purchases will be prevented or promptly identified, that purchased goods and services will be received and protected from theft and unauthorized use, that reasonable prices will be paid for goods and services, or that spending will be limited to available funding.

## Conclusion

The Government purchase card is a valuable tool for streamlining the Government's procurement process. According to the General Services Administration, Government-wide annual administrative savings are estimated to be \$1.2 billion from using credit cards, including the purchase card. However, for DoDEA to achieve administrative savings, DoDEA management needs to establish effective internal controls for the purchase card program. For the purchase card to be a cost-effective method of procurement, DoDEA management needs to:

- issue overarching guidance that provides consistent and complete rules on the appropriate use of purchase cards, including when entertainment and refreshment purchases are allowed;

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<sup>9</sup>Two months after our field visit, a DoDDS-Europe official stated that although most of the records of accountable property had been corrected, DoDDS-Europe was unable to properly account for property valued at \$13,755.

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- distribute the guidance to all employees involved in the purchase card program;
  - support and enforce the guidance;
  - devote adequate human capital and travel resources for purchase card oversight to ensure that guidance is followed, including the requirements for account and transaction authorization, reasonable spending limits, competitive acquisitions, reconciled and approved monthly statements, and proper supporting documentation; and
  - take appropriate disciplinary action when guidance is not followed.

In addition, DoDDS-Europe management should provide the discipline, structure, and climate necessary to implement effective internal controls. Only when DoDEA management establishes effective internal controls will DoDEA have reasonable assurance that the purchase card holders are complying with the applicable laws and regulations and that resources are being used effectively and efficiently.

## **Management Comments on the Finding and Audit Response**

**DoDEA Comments on the DoD Purchase Card Program.** The Director, DoDEA stated that the definitions of improper and abusive transactions should be made on the basis of GAO Report No. GAO-04-717T, "Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars," April 28, 2004. The Director further stated that the definition of questionable transactions should be made on the basis of GAO Report No. GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses," September 27, 2002.

**Audit Response.** Because we found no abusive transactions, we deleted all references to abusive transactions. Although GAO definitions have varied slightly between reports, we selected the definition of improper transactions from GAO Report No. 03-678G, "Exposure Draft, Audit Guide: Auditing and Investigating the Internal of Government Purchase Card Programs," May 2003, which defines improper purchases as "transactions that are intended for government use, but are not permitted by law, regulation, or organizational policy."

Our definition of questionable transactions was taken from GAO Report No. 02-676T, "Government Purchase Cards: Internal Control Weaknesses Expose Agencies to Fraud and Abuse," May 1, 2002, which defines "abusive or questionable purchases as that, while authorized, were for items purchased at an excessive cost, for a questionable government need, or both. Questionable purchases also include those for which there was insufficient documentation to determine whether they were valid." Because we did not find any transactions that were made at excessive cost or for questionable Government need, we

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defined questionable transactions as transactions with insufficient documentation to determine whether they were valid.

**DoDEA Comments on Field Trips at Other Tax-Supported Public Schools.**

The Director, DoDEA stated that our report is misleading when it states that not all tax-supported boarding schools in the United States supply free weekend trips because the Senate Page dormitory is not publicly supported. In addition, he stated that Senate Pages are paid an annual salary. Further, the Senate Page program is a voluntary work/study program. In contrast, the London Central High School Dormitory houses DoD dependents whose parents are military members or civilians stationed in an area without an English-speaking school.

**Audit Response.** Although the Director believes that the Senate Page program should not be used as an example because it is not tax-supported, the Senate Page residence hall is supported, in part, by appropriated funds according to the GAO.<sup>10</sup> Accordingly, the Senate Page program is tax-supported. According to DS Regulation 7100.3, the standard for determining whether field trips are allowed is whether they are “normally supplied as part of the school curriculum by comparable tax supported schools in the United States.” Therefore, we examined entertainment at the tax-supported boarding schools in the United States, and included the Senate Page program.

## **Recommendations, Management Comments, and Audit Response**

**Revised and Added Recommendations.** As a result of management comments, we revised draft Recommendations 1.a. and 1.b.(1) to recommend that DoDEA Regulation 7100.4 be revised rather than revoked and to allow the overarching guidance to summarize rather than replace DoDEA Regulation 7100.4. Minor revisions were made to other recommendations as necessary. We also added Recommendations 1.f. and 3. to recommend that DoDEA and the PMO review the semi-annual inspection report filed under Recommendation 2.d. and to ensure that the actions taken by DoDDS-Europe are adequate for compliance with the DoD Purchase Card Program.

### **1. We recommend that DoD Education Activity:**

**a. Revise DoD Education Activity Regulation 7100.4, “Use of Appropriated Funds for the Home-Away-From-Home Program,” March 25, 2004, to specifically address whether each type of entertainment identified by this audit, including spectator sports, paintball, go-karts, indoor water parks, and motion pictures, can be purchased with appropriated funds and obtain a formal legal review and approval from the DoD Deputy General Counsel (Fiscal) prior to reissuance.**

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<sup>10</sup>GAO Report No. GAO-04-388, “Daniel Webster Senate Page Residence Revolving Fund’s Fiscal Year 2002 Financial Statements,” March 31, 2004, states that in FY 2002, costs paid directly from appropriated funds included salaries and benefits, building maintenance, furniture and equipment, and telephones.

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**b. Revoke DoD Education Activity guidance “Government Purchase Card (US Bank I.M.P.A.C. Government Services) Program” and issue the revised DoD Education Activity Administrative Instruction 8000.1, “Use of The Governmentwide Commercial Purchase Card,” April 3, 2001, as the overarching guidance for the Government Purchase Card Program to include the minimum requirements of section 2784, title 10, United States Code, “Management of Credit Cards,” DoD purchase card guidance, and:**

**(1) Summarize all DoD Education Activity guidance that applies to the use of Government purchase cards and is not made part of the overarching guidance, such as DS Regulation 7100.3, “DoD Dependents Schools Use of Appropriated Funds,” April 17, 1990, and DoD Education Activity Regulation 7100.4, “Use of Appropriated Funds for the Home-Away-From-Home Program.”**

**DoDEA Comments.** The Director, DoDEA nonconcurred with the draft recommendations 1.a. and 1.b.(1) to issue overarching program guidance and revoke existing entertainment guidance. He stated that DoDEA Regulation 7100.4, which is the existing entertainment guidance, incorporates comments from the Office of the DoD Deputy General Counsel (Fiscal) and was promulgated without legal exception from that office. In addition, he stated that DoDEA Regulation 7100.4 sets reasonable guidelines to ensure that a nexus exists between student activities and the congressionally mandated mission of DoDEA. Further, the Director stated that it is necessary to have a separate entertainment policy. Therefore, he does not agree that DoDEA Regulation 7100.4 should be revoked or made part of the overarching guidance.

**Audit Response.** As a result of comments from DoDEA, we revised the draft Recommendation 1.a., as necessary, and substituted “revise” for “revoke.” We also revised Recommendation 1.b.(1) to allow the overarching guidance to summarize DoDEA Regulation 7100.4. Because DoDEA Regulation 7100.4 only applies to the London Central High School Dormitory, we also agree that it should be a separate regulation.

However, the DoDEA Regulation 7100.4 needs revision because it does not address all types of entertainment purchases identified during the audit. In addition, although the Office of the DoD Deputy General Counsel (Fiscal) commented on DoDEA Regulation 7100.4, an additional review and formal approval is necessary because the DoD Associate Deputy General Counsel (Fiscal) stated that he was not aware that the activities were not mandatory for all students and that activities were not available to non-boarding students. In addition, the DoD Associate Deputy General Counsel (Fiscal) stated that he did not complete a formal legal review. Therefore, we request that DoDEA provide comments in response to the final report addressing revised Recommendations 1.a. and 1.b.(1).

**(2) Prohibit food purchases at non-boarding schools with the exception of subsidized school lunches and food that is reasonably necessary for the education of students and is comparable to food provided at tax-supported schools in the United States.**



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**(3) Prohibit water purchases that do not meet the requirements of DoD Financial Management Regulation, volume 10, chapter 12.**

**(4) Establish procedures to ensure that purchases are competitively acquired.**

**(5) Establish procedures to ensure that all accountable property is recorded in the property records.**

**DoDEA Comments.** The Director, DoDEA concurred. DoDEA has developed a draft of Administrative Instruction 8000.1 to establish procedures for competitive purchases and to ensure that accountable property is recorded on the property records. The draft Administration Instruction 8000.1 also includes guidance on prohibited purchases and disciplinary actions. Additional guidance concerning purchases of food and water will be addressed in the new DoDEA Government Purchase Card Training Guide. In addition, DS Regulation 7100.3 will be updated to provide for specific exceptions for food for Sure Start, special education students, and curriculum related purposes. Actions on Recommendation 1.b.(2) and 1.b.(3) will be completed by December 31, 2004, and actions on Recommendation 1.b.(4) and 1.b.(5) will be completed by September 30, 2004. On October 8, 2004, a DoDEA official stated that actions on Recommendation 1.b.(4) and 1.b.(5) were still in process.

**Audit Response.** Although DoDEA concurred, the Director stated that DoDEA will address some procedures in the revised Administrative Instruction 8000.1 and some procedures in the DoDEA Government Purchase Card Training Guide. That does not comply with the intent of the recommendations 1.b.(4) and 1.b.(5). We identified problems with the consistency, completeness, and distribution of guidance that can be minimized or prevented by the issuance of overarching guidance for the Government Purchase Card Program. However, Administrative Instruction 8000.1 would serve the purpose of overarching guidance if it addresses food and water purchases and includes summaries of and references to DS Instruction 7100.3 and DoDEA Regulation 7100.4. Including overarching guidance in Administration Instruction 8000.1 will provide cardholders with the information necessary to determine the appropriate use of the Government purchase card. Therefore, we ask that DoDEA reconsider its position on including guidance on food and water purchases in the DoDEA Administrative Instruction 8000.1. In addition, we ask DoDEA to provide completion dates of the actions on Recommendation 1.b.(4) and 1.b.(5).

**c. Train all employees involved in the purchase card program on the new DoD Education Activity overarching guidance.**

**d. Post the revised overarching guidance on the DoD Education Activity Web site and distribute to all employees involved in the purchase card program.**

**e. Revise the DoD Education Activity Web site to inform parents that the cost for entertainment that does not meet the requirement of Recommendation 1.b.(1) shall be born by the parent.**

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**DoDEA Comments.** The Director, DoDEA concurred in part. DoDEA will train all cardholders and billing officials on new DoDEA policies and guidance and post all revised guidance to the DoDEA Web site. However, the guidance will not be the overarching guidance recommended in Recommendation 1.b. Actions taken in response to Recommendation 1.c., 1.d., and 1.e. will be completed by June 30, 2005, December 30, 2004, and September 30, 2004, respectively. On October 8, 2004, a DoDEA official stated that action on Recommendation 1.e. was still in process.

**Audit Response.** Although DoDEA only partially concurred, we consider its comments to be responsive for Recommendation 1.c. and 1.d. The DoDEA comments are partially responsive for Recommendation 1.e. DoDEA stated that DoDEA Regulation 7100.4 will be posted to the Web site by September 30, 2004. However, the DoDEA comments did not address revising information already posted to the Web site. For example, as of October 12, 2004, the DoDEA Web site stated that dormitory students who were children of DoD employees would receive “regularly scheduled trips and extracurricular activities at no cost.” In contrast, the London Central School Dormitory Web site was modified in March 2004 to state that parents would be responsible for paying for some activities. Therefore, we request that DoDEA provide additional comments in response to Recommendation 1.e.

**f. Review the semi-annual inspection report filed under Recommendation 2.d. to ensure that the actions taken by DoD Dependents Schools-Europe comply with the DoD Purchase Card Program.**

**Management Comments.** We request that DoDEA provide comments on Recommendation 1.f.

**2. We recommend that DoD Dependents Schools-Europe:**

**a. Devote adequate human capital resources to program oversight by employing two full-time agency program coordinators in Europe and devote adequate travel funds for conducting annual on-site inspections of purchase card holder and approving official records in accordance with Revision 1, “DoD Government Purchase Card Concept of Operations,” March 31, 2003, in order to:**

**(1) Establish proper account authorization in appointment letters and single and monthly spending limits that are reasonable when compared with actual purchases and budgets, and**

**(2) Detect, correct, and prevent transactions not properly authorized, competitively acquired, properly reconciled and approved on monthly statements, or properly supported with documentation.**

**DoDEA Comments.** The Director, DoDEA responded on behalf of DoDDS-Europe and concurred. The Director stated that recruitment efforts are underway for hiring a second APC in Europe. After the Director responded, a DoDDS-Europe official stated that the second APC was selected on September 2, 2004.

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For FY 2005, the DoDEA European Procurement Office received approval for the funding necessary to perform annual inspections of purchase card files. The inspections will include a review of the reconciliation and approval of monthly statements and supporting documentation. By December 31, 2004, DoDDS-Europe will issue new appointment letters with specific limits and establish reasonable single and monthly purchase limits on the basis of historical spending.

**b. Direct the London Central High School Dormitory staff to immediately:**

**(1) Cease making purchases that do not meet the requirements of Recommendations 1.a.**

**(2) Inform parents that the cost for entertainment that does not meet the requirement of Recommendation 1.b.(1) shall be born by the parent and revise information on the London High School Dormitory Web site accordingly.**

**DoDEA Comments.** The Director, DoDEA responded on behalf of DoDDS-Europe and concurred, in part. The Director noted that the guidance issued in response to Recommendations 1.b. will not be overarching.

**Audit Response.** With regard to our revision of Recommendations 1.a. and 1.b.(1), we request that DoDEA provide comments to Recommendation 2.b.

**c. Initiate a review and take appropriate administrative actions against the cardholder, the approving official, and the Superintendent of the Isles District School Office for the entertainment purchases that were made after receiving the memorandum from the DoD Education Activity European Procurement Office, dated June 26, 2003, which states that entertainment purchases are not legal.**

**DoDEA Comments.** The Director, DoDEA responded on behalf of DoDDS-Europe and nonconcurred with Recommendation 2.c., stating that appropriate administrative actions have been taken.

**Audit Response.** Although the Director, DoDEA nonconcurred, we have considered his response and accept the actions taken to be responsive. DoDDS-Europe management suspended the cardholder's purchase card and counseled the cardholder and the AO for making one unauthorized entertainment purchase.

**d. Provide an inspection report semi-annually to the DoD Education Activity agency program coordinator and the DoD Purchase Card Joint Program Management Office addressing compliance with the DoD Purchase Card Program.**

**DoDEA Comments.** The Director, DoDEA responded on behalf of DoDDS-Europe and concurred with Recommendation 2.d., stating that the revised Administrative Instruction 8000.1 will require APCs in satellite offices to submit a semi-annual report addressing compliance with the DoD Purchase Card

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Program to DoDEA and the PMO. DoDEA will complete actions by December 30, 2004.

**3. We recommend that the DoD Purchase Card Joint Program Management Office review the semi-annual inspection report filed under Recommendation 2.d. and ensure that the actions taken by DoD Dependents Schools-Europe are adequate for compliance with the DoD Purchase Card Program.**

**Management Comments.** We request that DoD Purchase Card Joint Program Management Office provide comments on Recommendation 3.

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## Appendix A. Scope and Methodology

The scope of this audit included a review of DoD purchase card transactions originating outside the United States to determine whether they were appropriate. Specifically, we used data mining techniques to identify high-risk transactions using indicators to identify transactions that appeared to be prohibited by guidance or that met a fraud profile or both. The indicators were developed by a group of investigators, auditors, and other experts at a Purchase Card Subject Matter Expert Conference in February 2002. We focused on selected transactions made by the DoDDS-Europe locations in Germany and Great Britain. Reduced travel funding limited our on-site audit verification.

This audit was performed to meet the requirements of Public Law 107-314, “National Defense Authorization Act for Fiscal Year 2003,” December 2, 2002. The law directs the Inspector General of the Department of Defense to perform periodic purchase card audits. We also reviewed the United States Code, the FAR, DoD Financial Management Regulations, and other DoD and DoDEA guidance containing information on policies and procedures in the administration and oversight of the DoD Purchase Card Program. Those documents were dated from April 1990 through March 2004.

We initially selected 705 high-risk transactions made by DoDDS-Europe cardholders from October 1, 2002, through March 31, 2003, valued at \$3.3 million. Because of time constraints, we limited our review of the 705 transactions to 411 transactions, which were made by 19 DoDDS-Europe cardholders with 22 accounts. Three cardholders had two accounts. We reviewed cardholder appointment letters, monthly statements, purchase logs, purchase requests, invoices, receipts of delivery, price quotes (for transactions over \$2,500), property records, cost reconciliations, contracts, and blanket purchase agreements. In addition, we interviewed selected cardholders, AOs, U.S. Bank officials, and other senior DoD and DoDEA program management personnel. We analyzed supporting documentation for compliance with applicable laws and DoD and DoDEA policies and procedures for the 411 transactions. We performed audit work at the DoD Purchase Card Joint Program Management Office, DoDEA headquarters, and 11 DoDDS-Europe activities in Germany and Great Britain.

We selected 22 accounts and 411 transactions for our review. In addition, to determine whether the London Central High School and the London Central High School Dormitory were complying with the legal opinions issued in June and August 2003, we reviewed the transactions made after the legal opinions were issued. In order to determine whether the accounts reviewed had a reasonable monthly purchase limit in comparison to the annual school budgets, we reviewed the aggregate monthly purchase limit for all the accounts at four schools. By including all the schools’ accounts, regardless of whether they were among the 22 selected for review, we were able to compare the schools’ total purchasing power to the schools’ annual budgets. Further, to determine whether the accounts reviewed had a reasonable single purchase limit, we analyzed all the transactions of the 22 accounts during the 6-month period ending March 31, 2003.

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We performed this audit from January 2003 through June 2004 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We relied on computer-processed data on purchase card transactions from U.S. Bank's purchase card management systems, which was provided to us by the Defense Manpower Data Center. We used the computer processed data and data mining techniques to identify high-risk transactions that appeared to be prohibited by guidance or that met a fraud profile developed by a group of investigators, auditors, and other experts at a Purchase Card Subject Matter Expert Conference in February 2002. However, with the exception of single purchase limits, we believe that the reliability of the data was sufficient for the audit because corroborating evidence was obtained from source documentation. Data on the single purchase limit could not always be verified because historical data on single purchase limits was not always available.

**GAO High-Risk Area.** The GAO has identified several high-risk areas in DoD. This report provides coverage on improving processes and controls to reduce contract risks.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of management controls over the DoDEA purchase card program. We discussed management controls and the management control program with DoDEA headquarters personnel. We also reviewed the adequacy of management's self-evaluation of those controls.

**Adequacy of Management Controls.** We identified material management control weaknesses for DoDEA as defined by DoD Instruction 5010.40. DoDEA did not implement effective internal controls over the use of purchase cards in order to:

- ensure that accounts were properly authorized,
- ensure that single and monthly spending limits were reasonable,
- ensure that transactions were properly authorized,
- prevent improper and questionable purchases from being made,
- ensure that items were purchased from proper sources,

- 
- ensure that transactions were reconciled and approved on the monthly statement, or
  - ensure that items purchased were properly received and supported with sufficient documentation.

All recommendations, if implemented, will improve controls over the purchase card program and could result in potential monetary benefits. Additionally, DoDEA did not implement controls to ensure that Government assets were properly recorded and accounted for in the property records. Recommendation 1.b.(5), if implemented, will improve property accountability controls. A copy of the report will be provided to the senior official responsible for management controls in DoDEA.

**Adequacy of Management's Self-Evaluation.** DoDEA officials identified the Purchase Card Program as an assessable unit; however, they did not identify or report the material management control weaknesses identified by the audit.

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## Appendix B. Prior Coverage

During the last 5 years, the GAO and the Inspector General of the Department of Defense (IG DoD) have issued multiple reports discussing the DoD purchase card program. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports, including the following recent reports with related coverage on credit cards, can be accessed at <http://www.dodig.osd.mil/audit/reports>.

### GAO

GAO Report No. GAO-04-717T, "Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars," April 28, 2004

GAO Report No. GAO-04-430, "Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys," March 12, 2004

GAO Report No. GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse," December 2, 2003.

GAO Report No. GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 20, 2002.

GAO Report No. GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses," September 27, 2002

GAO Report No. GAO-02-844T, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," July 17, 2002

GAO Report No. GAO-02-732, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," June 27, 2002

GAO Report No. GAO-02-676T, "Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse," May 1, 2002

GAO Report No. GAO-02-32, "Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," November 1, 2001

### IG DoD

IG DoD Report No. D-2004-104, "Purchase Card Use and Contracting Actions at the U.S. Army Corps of Engineers, Louisville District," July 27, 2004

IG DoD Report No. D-2004-096, "Controls Over Purchase Cards at Naval Medical Center San Diego," June 29, 2004



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IG DoD Report No. D-2004-076T, "Statement of David K. Steensma, Assistant Inspector General, Contract Management, COL William J. Kelley, Program Manager, Data Mining Division, Office of the Inspector General of the Department of Defense to the Senate Committee Governmental Affairs on How to Save the Taxpayers Money Through Prudent Use of the Purchase Card," April 28, 2004

IG DoD Report No. D-2004-016, "Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana," November 14, 2003

IG DoD Report No D-2004-002, "Selected Purchase Card Transactions at Washington Headquarters Service and Civilian Personnel Management Service," October 16, 2003

IG DoD Report No. D-2003-109, "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003

IG Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002

IG DoD Report No. D-2002-029, "Summary of DoD Purchase Card Program Audit Coverage," December 27, 2001

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
    Director, Acquisition Resources and Analysis  
    Director, Defense Procurement and Acquisition Policy  
        DoD Purchase Card Joint Program Management Office  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
    Deputy Chief Financial Officer  
    Deputy Comptroller (Program/Budget)  
Deputy General Counsel for Fiscal

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Combatant Command**

Commander, U.S. European Command

### **Other Defense Organizations**

Director, DoD Education Activity  
    Director, DoD Dependents Schools-Europe

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Finance  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

## DoD Education Activity Comments



DEPARTMENT OF DEFENSE  
EDUCATION ACTIVITY  
4040 NORTH FAIRFAX DRIVE  
ARLINGTON, VIRGINIA 22203-1635

AUG 20 2004

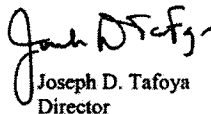
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR READINESS  
AND LOGISTICS SUPPORT, INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Draft Department of Defense Inspector General Report, entitled "Overseas Purchase Card Transactions by DoD Dependents Schools-Europe" (Project No. D2003LH-0052).

Attached is the Department of Defense Education Activity's (DoDEA's) response to the subject draft audit report. We concur in part with the findings and recommendations contained in the report and will take timely action to ensure appropriate internal controls and corrective measures.

With respect to the findings and recommendations concerning the London Central High School (LCHS) dormitories, our comments emphasize the unique 24/7 *in loco parentis* responsibilities of the LCHS dormitory staff with respect to their residential students. We believe that promulgation in March 2004 of DoDEA Regulation 7100.4, "Use of Appropriated Funds for the Home-Away-from-Home Program" provides appropriate guidance to meet DoDEA's *in loco parentis* responsibilities consistent with pertinent laws and regulations.

My point of contact on this matter is D Sibley, Chief, Compliance and Assistance, who may be contacted by email: [d.sibley@hq.dodea.edu](mailto:d.sibley@hq.dodea.edu) or by telephone at (703) 588-3244.

  
Joseph D. Tafoya  
Director

Attachment:  
As stated

Background

Revised

1. Page 2, "DoD Purchase Card Program" paragraph: GAO's definitions of "improper" and "abusive" transactions should be cited to GAO-4-717T and the definition of "questionable" transactions should be cited to GAO-2-1041. With respect to the definition of "questionable transactions," the definition stated is not accurate - GAO's exact definition should be stated, "Questionable transactions are those that appear to be improper or abusive but for which there is insufficient documentation to conclude either. We consider transactions to be questionable when they do not fit within the . . . guidelines on purchases that are acceptable for the purchase card program, and when there is not a reasonable or documented justification to acquire the item purchased."

Objectives

Revised  
page 3 and  
Appendix  
A (page 30)

2. Page 3, first paragraph: The statement that transactions identified were those "that appeared to be abusive, questionable, or improper" is inconsistent with Appendix A, "Scope and Methodology," which states that "705 questionable transactions" were initially selected and then the review was limited to a subset of 411 of those 705 transactions. Therefore, the sentence in the "Objectives" section should be changed to reflect that transactions that appeared to be "questionable" were examined.

Controls Over the DoDDS Europe Purchase Card Program

Added  
(page 16)

3. Page 4, first paragraph: Concur that documentation was lacking in cardholder files, particularly on cardholders that had left DoDDS-Europe (DoDDS-E). Annual surveillance of cardholders will concentrate on documentation review, and the new table of penalties in the DoDEA GPC acquisition instruction will be strictly adhered to. The DoDDS-Europe Procurement Office (DEPO) has received approval for funding to perform this surveillance beginning in fiscal year 2005.

4. Page 4, first paragraph: Concur that lack of documentation existed on competition for some purchases over \$2,500. This office is unable to verify actual purchase costs, because IG data was not included with the draft report.

Revised

5. Page 4, last paragraph: Finding that \$113,326 of merchandise cannot be located on property records should be made consistent with statement on page 14 that the majority of the questioned property has been accounted for.

Revised  
Appendix A  
(page 30)

6. Page 4, last paragraph: In last sentence that states, "In addition, DoDDS-Europe has no assurance that questionable or improper purchases will be prevented or promptly identified . . .", delete "improper" since only "questionable" transactions were examined in accordance with Appendix A.

Implementing Internal Controls Before Purchase

7. Page 5, "Account Authorization" paragraph: Concur with finding that appointment letters were not documented as clearly as they should have been. Appointment letters should be issued with specific limits, and are being reviewed and re-written within DoDDS-Europe. This process should be completed by 31 December 2004 for all DoDDS-Europe cardholders.

8. Page 6, "Purchase Limits" paragraph: Concur that purchase limits need to be set at reasonable amounts. Review of all cardholders to determine if limits are reasonable is now underway. This review will address peak purchases workload, e.g. beginning of school year, end of fiscal year. All Europe cardholders and approving officials will establish new single purchase and monthly limits based on historical spending beginning 1 October 2004. This process will be completed by 31 December 2004.

Implementing Internal Controls During Purchase

9. Page 9, "Entertainment and Refreshment Purchases" paragraph: While entertainment and some refreshment purchases were not authorized by DS Regulation 7100.3, the regulation will be re-written to address bona fide authorized exceptions such as the Home-Away-from-Home program and Sure Start program. A determination of what is purely "entertainment" must be undertaken on a case-by-case basis. The DoD Financial Management Regulation, volume 10, chapter 11, paragraph 110207, "Official Entertainment," cited states the general rule "that funds appropriated for government departments or agencies may not be used for entertainment, except when specifically authorized by statute." That chapter cites to 43 Comp. Gen. 305 (1963) in which the Comptroller General found the use of appropriated funds by the Veterans Administration to provide a dinner, luncheon, or refreshments in conjunction with an annual recognition ceremony to constitute "entertainment," whereas the furnishing of meals without charge to volunteers whose assignments extended over meal periods did not constitute entertainment because such meals were "incident to the actual rendering of services by the volunteers during their scheduled assignments." This example illustrates the fact that each situation must be reviewed to determine if the general rule applies. It is doubtful that activities for dormitory students were contemplated in drafting the sentence in the FMR concerning "Official Entertainment," which applies as a general rule in a typical federal office environment.

10. Page 10, "Field Trips at Other Tax-Supported Public Schools" paragraph: This paragraph states that "[n]ot all tax-supported boarding public schools in the United States supply free weekend field trips." This statement is misleading since one of the two dorms discussed is not publicly-supported. The Senate Page Program discussed is one in which High School students compete to work for the U.S. Senate as a page. According to information on this program from one Senator's website, "[p]ages are paid on the basis of

Added  
(page 28)

Page 10

Page 11

an annual salary of \$14,500. . . Pages are required to live in the Daniel Webster Senate Page Residence during the school year. The cost of living in the residence hall is \$450 per month and includes breakfast and dinner Monday through Friday. Payment is made through payroll deduction. An initial security deposit of \$250 is required before checking in and is refundable when it has been determined that no damage has occurred to the residence." Therefore, the Senate Page Program is a voluntary, competitive work/study program. The revolving fund cited to was established for receipt of deposits "of all rental payments and other moneys collected or received by the Sergeant at Arms with regard to the Daniel Webster Senate Page Residence . . . In addition, such moneys may be used by the Sergeant at Arms to purchase food and food related items and fund activities for the pages." 2 U.S.C. § 88b-7. This is entirely different from the London Central High School (LCHS) dormitories established to house DoD dependents whose parent or parents are military members or civilians supporting the DoD mission located in an area where there is no English-speaking school available. The only federal, tax-supported, boarding schools of which DoDEA is aware are those operated by the Department of the Interior, Bureau of Indian Affairs (BIA), Office of Indian Education Programs, for Native American children. The BIA uses appropriated funds to support a variety of activities exclusively for residential students enrolled in these BIA boarding schools.

11. Page 11, "Field Trips Not Available to All Students" paragraph. The fact that certain field trips at the LCHS dormitories are available only to dormitory students is fully consistent with the purpose of the Home-Away-From-Home Program ("HAHP"). The HAHP authorizes activities like these exclusively for LCHS dormitory students because their DoD sponsor parents are unable to provide them with the normal activities and outings of family life while they are stationed elsewhere serving our country. The LCHS dormitory staff and administrators have a unique *in loco parentis* relationship with the dormitory students that they do not have with the day students who are able to go home to their families at the end of each school day. Moreover, the policies of the HAHP are similar to those practices and policies of BIA dormitory schools according to the BIA Office of Indian Education Programs. All BIA students and all LCHS students, residential and non-residential, are given the opportunity to participate in the kinds of after-school activities found in most public schools, e.g., student clubs and athletics. However, both LCHS and BIA dormitories offer additional activities exclusively for their residential students for the simple reason that these students' families are not there to provide normal activities like visiting a museum or engaging in outdoor physical fitness activities. The BIA Office of Indian Education Programs confirmed that BIA offers activities for dormitory students that differ from those of non-dormitory students, and include recreational and club activities that differ from those traditionally offered by U.S. public schools. Neither LCHS nor BIA dormitory requires residential students to participate in all offered activities where a student prefers to remain in the dormitory.

A principal difference between LCHS and BIA residential life is the fact that many BIA boarding students can, and do, go home on the weekends, whereas LCHS dormitory

students cannot. Information we obtained from BIA provided that of the 500 students attending BIA's boarding school at Ft. Wingate, for example, only about 50 students stay in the dorm most weekends. In fact, staff ratios are required to be reduced on the weekends at BIA boarding schools "to adjust for those students who go home." 25 C.F.R. § 36.74(b). "Leisure-time activities shall be provided to dormitory students. These activities may include recreational activities, clubs, arts/crafts, and reading of newspapers and periodicals. Television viewing shall not be considered as structured leisure time unless a scheduled program provides educational benefit." 25 C.F.R. § 36.74(l). Since students at the London HS dormitories do not have the luxury of "going home" for the weekend, it is even more critical that DoDEA establish a structured program for them. If this program were offered to day students in addition to the dorm students, then DoDEA would have to use its appropriated funds to add staff to monitor those additional students – an unnecessary expense of O&M funds. In addition, the day students would have to be charged for all activities since none would be a necessary expense for those students.

12. Page 12: Concur that official travel expenses purchased on an individual basis should be made with the government travel card when the employee is being reimbursed under official travel orders.

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#### Implementing Controls After Purchase

13. Page 12, "Reconciliation and Approval of Monthly Statements" paragraph: Concur that cardholders and approving officials should follow applicable regulations for reconciliation and approval of statements. This is an issue DoDDS Europe takes seriously, and surveillance will strictly adhere to requirements.

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#### Overseeing the Purchase Card Program

14. Pages 14, "Human Capital Resources" paragraph: The second DoDDS-Europe APC position was approved by DoDDS-Europe in July, 2003. A second (alternate) APC was actually hired and in place by August 2003. However, the primary APC left his position with DoDDS-Europe in December 2003 due to enforcement of the five-year limitation for civilian employees overseas. Recruitment actions to backfill the second APC position are underway and a selection is expected by the end of August.

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15. Page 15, "Entertainment for Dormitory Students" paragraph: DoDEA Regulation 7100.4, "Use of Appropriated Funds for the Home-Away-From-Home Program," March 25, 2004, incorporates comments from the Office of the Deputy General Counsel (Fiscal), DoD, and as such, was promulgated without legal objection from that office. The Windsor Castle and Houses of Parliament trips referenced occurred prior to the promulgation of the new regulation, and therefore, were not analyzed under it. Therefore, the ODGC (Fiscal) would not have been aware of the circumstances of those

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trips in reviewing the HAHP regulation. The fact that less than all the boarding students participated in those activities is not relevant. The relevant point is that the new program sets forth reasonable guidelines to ensure there will be a nexus between after-school or weekend activities and DoDEA's congressionally-mandated mission. These activities are a necessary expense of fulfilling that mission for boarding students. As previously stated, such activities are not available to non-boarding students because they are not a necessary expense for those students.

16. Page 18, "Additional Legal Opinion" paragraph: The remainder of the quote from the message referenced from the Associate Deputy General Counsel (Fiscal), DoD to the Assistant General Counsel, DoDEA on August 14, 2003 provides:

"There is some (but not unlimited) discretion in the application of this standard. We would be wary of too precise an application of the GAO's 'entertainment' test since a trip to a museum might be very entertaining, in addition to being very educational. The GAO's decisions proscribing entertainment expenses usually deal with Federal employees as beneficiaries, not children for whom the Federal government is obliged to provide a public education. For kids, entertaining activities may provide the best education."

This opinion made it clear that DoDEA has some discretion in determining what activities would be appropriate for the dorm students and that there was no bright line rule for making that determination.

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17. Page 19, "Disciplinary Action" paragraphs: Non-concur. The first paragraph references entertainment purchases in the 6-month period ending March 31, 2003, and refers to them as a "first offense," but states that since there were mitigating factors and inconsistent guidance, it was "understandable that the recommended penalties were not imposed for the first offense." The actions taken to address the entertainment purchases by the cardholder that were discovered after issuance of the DoDDS-E legal opinion that were taken by the DoDDS-E Procurement Office and by the Superintendent of the Isles District were appropriate. In addition, the action taken by the Superintendent, Isles District with respect to the AO was appropriate. Such actions taken are within the purview of DoDEA management.

After the legal opinion in June 2003 was received as the result of the DoDDS-Europe management request, a letter from a DEPO Team Chief was issued to both the cardholder at London Central HS and the approving official on 26 June, 2003, stating that: "Recreational/entertainment purchases shall not be made by your cardholders. If these types of purchases continue, your cardholders will have their credit cards suspended or even terminated".

DEPO continued to monitor use of the cardholders, and when it was discovered that a purchase was made for the London Eye (Ferris Wheel ride) in August 2003, the card was permanently suspended. That particular cardholder has not had their card reinstated. By this point, all purchases at London Central HS were being approved by the DoDEA HQ Legal Office prior to charges being made. Proper safeguards, and prompt corrective actions were taken by DoDDS-Europe.

#### Management Control Program Review

18. Page 25, "Adequacy of Management Controls" paragraph: Although appropriate training was in place, proper surveillance procedures were not in place to prevent documentation from being incomplete. The majority of the purchases considered to be questionable were due to incomplete records and documentation of purchases. To respond to this, more emphasis on documentation will be included in the annual training, surveillance will be conducted on an annual schedule, and the new table of penalties issued by DoDEA will be strictly adhered to.

#### Recommendations

19. Recommendations 1.a. and 1.b.(1): Non-concur. DoDEA Regulation 7100.4, "Use of Appropriated Funds for the Home-Away-From-Home Program," incorporates comments from the Office of the Deputy General Counsel (Fiscal), DoD and as such, was promulgated without legal objection from that office. It sets forth reasonable guidelines to ensure that a nexus exists between after-school or weekend activities and DoDEA's congressionally-mandated mission. DoDEA Regulation 7100.4 addresses the unique *in loco parentis* relationship and responsibility which exists between LCHS' staff and their residential students. There are no specific "requirements" of the DoD Financial Management Regulation to meet. Volume 11, chapter 10, paragraph 110207 provides:

As noted in 43. Comp Gen 305 (1963), it is a general rule of longstanding that funds appropriated for government departments or agencies may not be used for entertainment, except when specifically authorized by statute. (emphasis added)

The LCHS dormitories present a unique challenge in providing for the physical and emotional needs of dormitory students after school and on the weekends. The HAHF provides a structured framework, within DoDEA's mission, to successfully operate the LCHS dormitories. A policy separate from that concerning the overall purchase card program is necessary and appropriate to address the unique aspects of the HAHF.

20. Recommendations 1.b.(2). and (3): Concur. With regard to the purchase of supplies and services for other than the "Home Away From Home" Program, DoDEA intends to rescind the previous policy document governing the use of the Government Purchase Card and has developed a draft of AI 8000.1 that was based on the comments we

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received from the IG Team over the previous six months. This draft AI will replace the previous version, dated April 3, 2001 and is presently under review for approval. The draft AI includes guidance on prohibited purchases and the disciplinary actions taken if the policy is not followed.

Procedures have been put in place in DoDEA's draft Administrative Instruction 8000.1 (AI), paragraph 12, which addresses how vendor price competition must be obtained and documented for student travel. Additional guidance concerning unauthorized purchases such as food and water will be addressed in the new draft DoDEA GPC Training Guide. In addition, alerts will be sent to all cardholders and billing officials concerning unauthorized use of the GPC. This will be completed NLT Dec 31, 2004.

Additionally, DS Regulation 7100.3 will be updated to provide for specific exceptions for food required for Sure Start programs, Special Education students, and that required for curriculum purposes.

21. Recommendation 1.b.(4): Concur. Procedures have been put in place in DoDEA's draft Administrative Instruction 8000.1 (AI), paragraph 12, which addresses how vendor price competition must be obtained and documented for student travel. This will be completed NLT Sep 30, 2004.

22. Recommendation 1.b.(5): Concur. Procedures to ensure all accountable property is recorded in property records will be added to the draft AI 8000.1, the training guide, and to the Purchase Log. This will be developed by DoDEA Headquarters to ensure consistency among all offices. This will be completed NLT Sep 30, 2004.

23. Recommendation 1.c: Concur in part. All cardholders and billing officials will be completely retrained on the new DoDEA policies and guidance, but the guidance will not be overarching as recommended in 1.a. above. Due to the location of all the cardholders, on site training would take approximately one year to complete. In the interim, all DoDEA regulations and guidance will be posted on the web page to include cardholder alerts. In addition, DoDEA is considering developing a web based training program that all cardholders can access in remote areas. This will be completed NLT Jun 30, 2005.

24. Recommendation 1.d: Concur in part. All revised guidance once approved and signed will be posted on DoDEA's Web site, but it will not be "overarching" guidance as suggested in 1.a. above. This will be completed NLT Dec 30, 2004.

25. Recommendation 1.e: Concur in part. Revised guidance based upon the Home-Away-from-Home program guidance will be placed on the DoDEA Website by September 30, 2004.

26. Recommendations 2a.(1 and 2): Concur.

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27. Recommendation 2.b.(1): Concur in part. See responses above.

28. Recommendation 2.b.(2): Concur in part. See responses above.

29. Recommendation 2.(c): Non-concur. Appropriate administrative actions have been taken.

30. Recommendation 2.d: Concur. Reporting of DoDDS-Europe programs through DoDEA would be appropriate. DoDEA Headquarters will develop a format for a semi-annual Government Purchase Card report addressing compliance with the DoD Purchase Card Program. In addition, AI 8000.1 will also include the requirement for the APCs in the Procurement satellite offices to submit this report on a semi-annual basis. This will be completed NLT Dec 30, 2004.

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